



The brain drain

As Microsoft reshuffles its business and tries to stop a steady stream of talent defecting to Google, Paul Nesbitt wonders if the software giant has simply become too cumbersome to compete

When Mark Luckovsky, a senior Microsoft engineer, handed in his resignation late last year, Microsoft CEO Steve Ballmer threw a chair across the room. He threatened to "fucking kill Google" when he learned Luckovsky was leaving to join the search giant.

The incident surfaced recently in a statement made during a US court case. Significantly, Microsoft is bringing the case against Google to try to prevent another of its senior employees, former vice-president Kai Fu Lee, joining the search engine firm.

Ballmer responded by describing the account as a "gross exaggeration of what actually took place," while acknowledging that he had "strongly urged [Luckovsky] to change his mind".

But so many of Microsoft's top employees have been leaving to join Google that *BusinessWeek* ran a story in September entitled "I'm outta here! Why Microsoft is losing some key talent". Much of it seems to be heading for Google. For example, the recently launched Google Talk IM service was the work of two ex-Microsoft engineers, Joe Beda and Gary Burd.

There is a growing belief that Microsoft may finally be succumbing to the corporate inertia that left IBM so vulnerable to a young Microsoft when the PC market emerged. Microsoft's problem is its focus on preserving one of the most profitable monopolies in the world, its Windows and Office businesses. The author of this policy is Bill Gates himself, Microsoft's chief software architect. It's called 'integrated innovation' inside Microsoft.

But according to critics, it's bogged the company down in red tape and made it slow to react to emerging technological opportunities and the threats from those who exploit them.

NETSCAPE GOAT

In 1995 Microsoft was slow to grasp the importance of the internet, but the CEO of the time, Bill Gates, engineered a spectacular and ruthless turnaround and eliminated the threat from Netscape. Netscape's browser had the potential to evolve into an operating system-independent platform that could ultimately eclipse Windows. Microsoft won the browser wars, a victory that was helped by Netscape's weakness as a company.

Ten years later, the highly profitable and increasingly powerful Google is leading the way in creating an alternative platform to Windows. Those seemingly innocuous tools such as Desktop Search are actually the first steps towards what is variously called web services and Web 2.0. The idea is that people will increasingly use the web as a source of services as well as data. Nothing new in that, you might think. Microsoft has been offering



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services such as Hotmail and MapPoint for several years, but if Google can offer Picasa to let you edit your pictures online, why not offer a complete alternative to Office for free?

GOOGLE WHACKED

The Web 2.0 concept goes further. Web services are increasingly promoted as the basis for mini-applications that tap information from websites without you needing to visit them with your browser. Primitive examples include stock tickers and weather forecast widgets that sit on desktops, as well as Google and Yahoo!'s own search applications. Apple's Mac OS X 10.4 made internet-powered desktop widgets a big part of its appeal.

But it's the legion of small developers that are creating the buzz, a buzz that has disappeared from the Windows platform. They are creating mutations of services such as Google Maps to track flooding in New Orleans after Hurricane Katrina, for example, and creating successful start-ups such as salesforce.com, which offers web-based apps.

There's nothing to stop Microsoft embracing this concept, as it did to such notorious effect with Sun's Java. For developers, Java's selling point was the ability to create applications that run on any operating system, as long as a Java Virtual Machine was installed on top of it. Microsoft retaliated by adding its own Windows-specific extensions to Java, ostensibly to add functionality. In effect it tied Java to the Windows platform and Java's main selling point was neutralised.

Microsoft's extensive reorganisation, which places its MSN operation in the same division as its Windows business, is reminiscent of this strategy. The MSN search and messenger services become part of Gates's 'integrated innovation'. Integrating MSN with the Windows group is "a Google reaction", according to Forrester Research analyst Frank Gillett. But will it work?

BEHIND THE TIMES

Microsoft has become so bogged down with developing Windows Vista, which will be more than two years behind schedule when it's released, that it risks slowing down its relatively fleet-footed MSN operation in the brave new world of web services. Luckovsky, for one, was scathing about Microsoft's recent efforts, which he described in court as "incompetent".

"I am not sure I believe any more that Microsoft knows how to ship software," he added. By contrast he described Google's corporate culture as "very supportive, collaborative, innovative, and internet-like – and that's bottoms-up innovation rather than top-down direction".

Microsoft has always prided itself on a ruthless company culture that guards against complacency. Ballmer has given new CTO Ray Ozzie, the man who invented Lotus Notes, the task of boosting Microsoft's web service offerings. But this looks like a reaction to, rather than the embracing of, a new technology wave. The bottom line is that every developer who sees an opportunity in creating platform-independent web services is one less developer working with Windows. Microsoft must hope its own web services business grows faster than its Windows business shrinks.

IN WITH A SHOUT

Ballmer knows how important developers are. His 'developers' rant, where he ran around a stage shouting "developers!" repeatedly, has gone down in the annals of tech history. The fact remains that Microsoft has sales of nearly \$40 billion per year (10 times that of Google) and profits of \$12.3 billion in its last financial year.

"We won the desktop. We won the server. We will win the web. We will move fast, we will get there. We will win the web," Ballmer told *BusinessWeek* just days before Microsoft announced its company-wide reorganisation.

According to Jupiter Research analyst Michael Gartenberg, Microsoft "[doesn't] have to be the best at something, but [it has] to be good enough for people to use their default settings". That's the power of owning the monopoly operating system. But the need to hold on to this position could hamper Microsoft's efforts. ☐